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**FISCAL IMPACT STATEMENT**

**LS 6705**

**BILL NUMBER:** HB 1086

**NOTE PREPARED:** Dec 27, 2005

**BILL AMENDED:**

**SUBJECT:** Agricultural Enterprise Zones.

**FIRST AUTHOR:** Rep. Buck

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill permits the Board of the Economic Development Corporation to designate certain areas as Agricultural Enterprise Zones. It provides exemptions from property taxes for agricultural processing facilities located in the Zones. It also provides that real and personal property located in a Zone may be assessed for payment of property taxes committed to funding or paying bonded indebtedness or certain lease rentals.

The bill prohibits a person from claiming both incentives provided to Enterprise Zone businesses and the Agricultural Enterprise Zone property tax exemption. It also prohibits a person from claiming the investment deduction for property located in an Agricultural Enterprise Zone.

**Effective Date:** July 1, 2006.

**Explanation of State Expenditures:** *Summary:* The Indiana Economic Development Corporation (IEDC) would incur additional administrative expenses relating to application review, designation, and administration of Agricultural Enterprise Zones (AEZs) by the IEDC Board. The IEDC's current level of resources should be sufficient to fulfill these administrative tasks. The December 5, 2005, state staffing table indicates that the IEDC had 39 vacant full-time positions, including one regional office position.

Also, the bill requires the IEDC Board to contract with a state university for annual evaluations of the AEZs. The bill does not provide additional funding for this contract. However, the IEDC does receive funds via the business registration fee imposed on businesses receiving tax incentives under the Urban Enterprise Zone (EZ) program. The bill, however, excludes from the registration fee requirement businesses that receive the property

tax exemption for agricultural processing facilities under the AEZ program proposed under this bill. (Note: The bill also excludes these businesses from paying the participation fees imposed by Urban Enterprise Associations (UEAs) on EZ businesses.) Under current statute, funding for expenses relating to the administration of the EZ program is derived from the registration fee charged to EZ businesses that receive tax incentives. The registration fee is 1% of the tax incentive benefits exceeding \$1,000 received by an EZ business.

*Background Information:* The bill would authorize the IEDC Board to designate up to 10 AEZs within municipalities containing an Urban Enterprise Zone with an Urban Enterprise Association (UEA). (Note: Currently, there are 25 municipal EZs.) The bill limits the designation period for AEZs to CY 2007. The AEZs may operate for up to 15 years. The bill authorizes a municipal executive to apply to the IEDC Board for designation of an AEZ upon approval by resolution of the municipal legislative body. Under the bill, the IEDC Board must evaluate the application if the proposed AEZ meets the following threshold criteria:

- (1) At least 25% of the households in the proposed AEZ are below the poverty level; or the average unemployment rate in the proposed AEZ for the most recent 18-month period is at least 1.5 times the average statewide unemployment rate for the same period.
- (2) The proposed AEZ is entirely within the applicant municipality and is suitable for the development of at least one agricultural processing facility.
- (3) The municipality contains an EZ with a UEA that has been appointed.

Under the bill, the IEDC Board would have to evaluate the application for an AEZ that meets the threshold criteria, and either designate the AEZ or reject the AEZ application based on the following factors:

- (1) The level of poverty, unemployment, and general distress of the area in comparison with other applicant and non-applicant municipalities, and whether the need for an AEZ in the municipality exceeds the threshold criteria.
- (2) Evidence of support for designation by residents, businesses, and private organizations in the proposed AEZ and the demonstration of a willingness among AEZ constituents to participate in revitalization of the area.
- (3) Efforts by the applicant municipality to reduce the impediments to development in the AEZ, including: streamlining local government regulations and permit procedures; crime prevention activities involving AEZ residents; and a plan for infrastructure improvements capable of supporting increased development activity.
- (4) Significant efforts to encourage the reuse of existing AEZ structures in new development activities to preserve the existing character of the neighborhood, where appropriate.
- (5) The capacity of the UEA to carry out the goals and purposes of the EZ and AEZ laws.

The bill requires an AEZ business to annually report various employment, wage, investment, and other business activity information to the IEDC Board; and to submit to the IEDC Board income tax returns, assessment records, personal property tax returns, and other supporting documentation it requests. The bill also requires the IEDC Board to contract with a state university to prepare an annual evaluation of the economic effects of AEZs for the Legislative Council.

## **Explanation of State Revenues:**

## **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The bill would provide a property tax exemption for agricultural processing facilities located in AEZs and for business personal property in these facilities. However, property owners would not be exempt from property taxes resulting from local bonded indebtedness or lease rentals with an original term of at least five years. In addition, the bill would prohibit a taxpayer from receiving the property tax investment deduction with respect to real property or personal property located in an AEZ. A taxpayer is eligible for the exemption until the DLGF determines that total exemptions granted to the taxpayer under this program reach \$10 M.

To qualify for the AEZ property tax deduction, a taxpayer must be engaged in the business of agricultural processing at the processing facility in the AEZ, and must do either of the following:

- (1) invest at least \$1.0 M in the facility and create at least five new jobs, in the case of a facility that commences operations after the AEZ is designated; or
- (2) increase the number of full-time employees working at the facility by at least 10% after the AEZ is designated, in the case of facility that was already located in the AEZ.

The exemption would be effective for 2007 Pay 2008 taxes. The exemption could potentially continue through 2022 given that AEZs are to be designated in 2007 and are limited to 15 years. The exemption expires when an AEZ's designation expires. In addition, the exemption is phased down during the last three years that the AEZ is designated, as presented in the table below.

<b>Phase-Down of AEZ Property Tax Exemption</b>		
<b>Two Years Before Final Year of AEZ Designation</b>	<b>One Year Before Final Year of AEZ Designation</b>	<b>Final Year of AEZ Designation</b>
25% reduction	50% reduction	75% reduction

The bill provides that a taxpayer claiming the exemption is also ineligible for the following EZ tax incentives: (1) the EZ Inventory Tax Credit; (2) the EZ Employment Expense Credit; (3) the EZ Loan Interest Credit; (4) the EZ Investment Cost Credit; (5) the Neighborhood Assistance Credit; and (6) the EZ Investment Deduction.

In general, the exemption would reduce the assessed value tax base in local taxing districts that contain AEZs. This would cause a shift of the property tax burden from the taxpayers receiving the exemptions to all other taxpayers in those taxing districts. The actual fiscal impact depends on the amount of additional property that would qualify for the exemption under this proposal.

**State Agencies Affected:** Indiana Economic Development Corporation; Department of Local Government Finance.

**Local Agencies Affected:** Municipalities with Urban Enterprise Zones.

**Information Sources:**

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